

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2014

NORTH CENTRAL KANSAS LIBRARIES SYSTEM

Manhattan, Kansas
As of December 31, 2014

EXECUTIVE COMMITTEE

Susan Moyer
Mary White
Crystal Applegarth
Janet Duncan
Gail Daugherty
Gwen Owens-Wilson
Susan Adamchak
Janet Keller
Susan Davis
Judith Cremer
Eric Benson
Janice Lyhane
Robin Ottoson
Gerald Myers

OFFICERS

President - Eric Benson
Vice-President - Susan Moyer
Secretary - Treasurer - Mary White

DIRECTOR

Linda Knupp

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
TABLE OF CONTENTS
For the Year Ended December 31, 2014

	Page
Independent Auditor's Report	1 - 2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3 - 4
Management's Discussion and Analysis	5 - 7
Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Balance Sheet - Governmental Funds	10
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds	11 - 12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis)	13
Notes to Financial Statements	14 - 18



May 27, 2015

Board Members
North Central Kansas Libraries System
Manhattan, Kansas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Libraries System), as of and for the year ended December 31, 2014, which collectively comprise the Libraries System's basic financial statements and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in Governmental Auditing Standards, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Libraries System, as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015 on our consideration of the Libraries System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Libraries System's internal control over financial reporting compliance.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas



May 27, 2015

Board Members
North Central Kansas Libraries System
Manhattan, Kansas

**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Libraries System), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements, and have issued our report thereon dated May 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Libraries System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. However, we did identify the following significant deficiency:

Management did not have a process for identifying prepaid expense items. These items arise when payments are made for services which benefit more than one reporting period. This matter was discussed with management and a procedure has been established to begin tracking prepaid expense items.

May 27, 2015
North Central Kansas Libraries System
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Libraries System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varney & Associates, CPAs, LLC

Certified Public Accountants

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

General Information

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Libraries System:

The Statement of Net Position and Statement of Activities are the *government-wide financial statements*. They provide information about the activities of the Libraries System as a whole and present a longer-term view of the Libraries System's finances.

The Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance are the *fund financial statements*. These statements focus on current financial resources and provide a more detailed view about the accountability of the Libraries System's sources and uses of funds for all governmental funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Throughout this discussion and analysis, financial figures have been rounded to the nearest \$1,000 unit.

Financial Analysis of the Libraries System as a Whole

The Libraries System government-wide net position decreased by \$19,000 during the year ended December 31, 2014. The following significant changes occurred during 2014:

- *Liability for Compensated Absences*. This liability increased by \$7,000 during 2014 and is mostly attributable to employees use of this benefit during 2014 at levels which were significantly less than those during 2013.
- *Unavailable Revenue - Property Taxes*. This account represents the ensuing years' budgeted tax levy. For 2015, the certified budget calls for a tax levy which is \$5,000 less than what was certified in 2014.

The following table is presented for comparative analysis of the Libraries System government-wide net position:

	2014	2013
Assets		
Current assets	\$ 1,089,000	\$ 1,115,000
Capital assets - Net	40,000	47,000
Total Assets	<u><u>\$ 1,129,000</u></u>	<u><u>\$ 1,162,000</u></u>
Liabilities		
Current liabilities	\$ 11,000	\$ 10,000
Long-term liabilities	27,000	20,000
Total Liabilities	<u><u>\$ 38,000</u></u>	<u><u>\$ 30,000</u></u>
Deferred Inflows of Resources		
Unavailable revenue - Property taxes	<u><u>\$ 802,000</u></u>	<u><u>\$ 807,000</u></u>
Net Position		
Investment in capital assets	\$ 40,000	\$ 47,000
Restricted	62,000	61,000
Unrestricted	187,000	217,000
Total Net Position	<u><u>\$ 289,000</u></u>	<u><u>\$ 325,000</u></u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 1,129,000</u></u>	<u><u>\$ 1,162,000</u></u>

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

Financial Analysis of the Libraries System as a Whole (Continued)

The Libraries System government-wide net position decreased by approximately \$36,000 during the year ended December 31, 2014. This change is primarily explained by the following activity:

- *Property Tax Levy.* The 2014 and 2013 property taxes were budgeted at \$897,000 and \$813,000, respectively. This increase of \$84,000 was planned to fund (1) additional book and material costs for members of the Libraries System and (2) additional personnel service expense for employees. The actual increase in the property tax revenues was \$56,000 and was expensed as intended.
- *Personnel Services Expense.* This account increased by \$56,000 from 2013 to 2014. Much of the change in this account is attributable to hiring a new full-time employee in February 2014. Other significant changes include (1) additional costs of KPERS employer contributions and (2) the accrued expense of the compensated absences benefit which was earned by the employees comparatively between 2013 and 2014 but which was used substantially less in 2014.

The following table is presented for comparative analysis of the Libraries System government-wide changes in net position:

	2014	2013
Revenue		
Program revenues	\$ 185,000	\$ 191,000
General revenues	885,000	829,000
Total Revenue	<u>\$ 1,070,000</u>	<u>\$ 1,020,000</u>
Expenses	<u>1,106,000</u>	<u>1,024,000</u>
Change in Net Position	<u><u>\$ (36,000)</u></u>	<u><u>\$ (4,000)</u></u>

Financial Analysis of Funds within the Libraries System

The Libraries System operates a series of funds of which the General Fund and Employee Benefit Fund are financed primarily through property tax levy each year. The remaining funds are financed primarily through gifts, grants and charges for service.

The General Fund experienced a significant \$32,000 decrease in fund balance during 2014. This decrease is attributable to the 2013 budget surplus of \$114,000 which was carried over and made available for 2014 operations. The budget surplus continued through 2014 and \$81,000 has been reserved for use in the 2015 budget year and beyond.

The Employee Benefits Fund was operated within budgeted limits for 2014. The costs of employee benefits increased by 8% from 2013 to 2014. Much of this cost is attributable to one new full-time employee that was added in February 2014.

The State Aid Fund expenditures increased by \$13,000 while state aid funding decreased by \$7,000. This resulted in a \$20,000 decrease in fund balance. State Aid funding is available to meet the general needs of the Libraries System and the 2014 changes within this fund are attributable to the decision to use state aid funding to subsidize the budget of the general fund.

Other governmental funds were operated at a surplus in 2014 and the \$80,000 fund balance which is to be carried over to 2015 is restricted to use for member library local funds and LSTA regional automation grants.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
For the Year Ended December 31, 2014

Factors Bearing on the Future of the Libraries System

At the time these financial statements were prepared and audited, the Libraries System was aware of the following items that could have significant impact on its finances in the future:

- Continued low interest rates will have a negative impact on future revenue derived from investment of idle funds
- A capital improvement fund was established in 2013 and has \$75,000 available to be used for purchase of property and equipment items. Currently, the Libraries System has evaluated its needs and determined that no specific needs require the use of these funds. Management and the board of directors continue to evaluate the needs of the Libraries System and will use these funds when an appropriate need arises.
- The Libraries System continues to closely monitor external factors such as (1) the costs of facilities which are shared with the Manhattan Public Library, (2) medical insurance, (3) other employee benefit costs, and (4) third-party service charges. Currently, there are no known factors which would be expected to cause significant fluctuations in operating costs.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Libraries System finances and to demonstrate accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

NCKLS Office
629 Poyntz Avenue
Manhattan, KS 66502

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF NET POSITION
December 31, 2014

ASSETS

Assets

Cash and cash equivalents	\$ 267,424
Taxes receivable	802,295
Prepaid expense	19,693
Capital assets - Net	40,014
TOTAL ASSETS	<u>\$ 1,129,426</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Liabilities

Accounts payable	\$ 11,095
Compensated absences	27,059
Total Liabilities	<u>\$ 38,154</u>

Deferred Inflows of Resources

Unavailable revenue - Property taxes	<u>\$ 802,295</u>
--------------------------------------	-------------------

Net Position

Net investment in capital assets	\$ 40,014
Restricted	61,581
Unrestricted	187,382
Total Net Position	<u>\$ 288,977</u>

TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION

\$ 1,129,426

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2014

Expenses

Library Operations	
Personnel services	\$ 629,358
Commodities	129,418
Contractual services	189,186
Grants issued to others	142,789
Depreciation	14,996
Total Expenses	<u>\$ 1,105,747</u>

Program Revenues

Charges for services	\$ 5,272
Operating grants and contributions	180,039
Total Program Revenues	<u>\$ 185,311</u>

Net Program Expenses

\$ 920,436

General Revenues

Property taxes	\$ 883,771
Interest	1,333
Total General Revenues	<u>\$ 885,104</u>

Change in Net Position

\$ (35,332)

NET POSITION - BEGINNING, AS PREVIOUSLY STATED

\$ 283,621

PRIOR PERIOD ADJUSTMENT - Prepaid Expenses

26,113

PRIOR PERIOD ADJUSTMENT - Capital Assets - Net

14,575

NET POSITION - BEGINNING, AS RESTATED

\$ 324,309

NET POSITION - END OF THE YEAR

\$ 288,977

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
BALANCE SHEET - GOVERNMENTAL FUNDS
 December 31, 2014

	<u>General Fund</u>	<u>Employee</u>	<u>Capital</u>	<u>State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 92,377	\$ 26,972	\$ 75,000	\$ 12,723	\$ 60,352	\$ 267,424
Taxes receivable	652,228	150,067	-	-	-	802,295
Prepaid expense	-	-	-	-	19,693	19,693
Total Assets	<u>\$ 744,605</u>	<u>\$ 177,039</u>	<u>\$ 75,000</u>	<u>\$ 12,723</u>	<u>\$ 80,045</u>	<u>\$ 1,089,412</u>
LIABILITIES						
Accounts payable	\$ 11,095	\$ -	\$ -	\$ -	\$ -	\$ 11,095
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - Property taxes	\$ 652,228	\$ 150,067	\$ -	\$ -	\$ -	\$ 802,295
Fund Balance						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 80,045	\$ 80,045
Assigned	-	26,972	75,000	12,723	-	114,695
Unassigned	81,282	-	-	-	-	81,282
Total Fund Balance	<u>\$ 81,282</u>	<u>\$ 26,972</u>	<u>\$ 75,000</u>	<u>\$ 12,723</u>	<u>\$ 80,045</u>	<u>\$ 276,022</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 744,605</u>	<u>\$ 177,039</u>	<u>\$ 75,000</u>	<u>\$ 12,723</u>	<u>\$ 80,045</u>	<u>\$ 1,089,412</u>

Total Fund Balance - Modified Accrual Basis \$ 276,022

Amounts reported in the statement of net position are different because:

Capital assets are not financial resources and are not reported in the funds 40,014

Compensated absences are included as a liability (27,059)

Net Position of Primary Government - Full Accrual Basis \$ 288,977

The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Employee Benefit Fund</u>	<u>Capital Improvement Fund</u>	<u>State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenue						
Property taxes	\$ 708,136	\$ 175,635	\$ -	\$ -	\$ -	\$ 883,771
Charges for services	5,272	-	-	-	-	5,272
Intergovernmental	12,710	-	-	63,968	103,361	180,039
Interest	1,333	-	-	-	-	1,333
Total Revenue	<u>\$ 727,451</u>	<u>\$ 175,635</u>	<u>\$ -</u>	<u>\$ 63,968</u>	<u>\$ 103,361</u>	<u>\$ 1,070,415</u>
Expenditures						
Personnel Services	\$ 459,245	\$ 163,175	\$ -	\$ -	\$ -	\$ 622,420
Commodities	-	-	-	79,298	50,120	129,418
Contractual services	139,900	-	-	5,191	-	145,091
Grants issued to others	142,789	-	-	-	-	142,789
Capital Outlay	17,818	-	-	-	34,777	52,595
Total Expenditures	<u>\$ 759,752</u>	<u>\$ 163,175</u>	<u>\$ -</u>	<u>\$ 84,489</u>	<u>\$ 84,897</u>	<u>\$ 1,092,313</u>
Excess of Revenue Over Expenditures	<u>\$ (32,301)</u>	<u>\$ 12,460</u>	<u>\$ -</u>	<u>\$ (20,521)</u>	<u>\$ 18,464</u>	<u>\$ (21,898)</u>
FUND BALANCE - BEGINNING, AS PREVIOUSLY STATED	\$ 113,583	\$ 14,512	\$ 75,000	\$ 28,244	40,468	\$ 271,807
PRIOR PERIOD ADJUSTMENT - PREPAID EXPENSE	-	-	-	5,000	21,113	26,113
FUND BALANCE - BEGINNING, AS RESTATED	<u>\$ 113,583</u>	<u>\$ 14,512</u>	<u>\$ 75,000</u>	<u>\$ 33,244</u>	<u>\$ 61,581</u>	<u>\$ 297,920</u>
 FUND BALANCE - END OF THE YEAR	 <u>\$ 81,282</u>	 <u>\$ 26,972</u>	 <u>\$ 75,000</u>	 <u>\$ 12,723</u>	 <u>\$ 80,045</u>	 <u>\$ 276,022</u>

(Continued)

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)
For the Year Ended December 31, 2014

	<u>Total</u>
Net Change in Fund Balances - Modified Accrual Basis	\$ (21,898)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the funds but are recorded as capital assets with an annual charge to depreciation expense at the government wide reporting level	
Capital outlay expenditures	8,500
Depreciation expense	(14,996)
Changes in the liability for compensated absence are reported as adjustments to expense at the government wide reporting level but are not reported in the funds	<u>(6,938)</u>
Change in Net Position of Primary Government - Full Accrual Basis	<u>\$ (35,332)</u>

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
 For the Year Ended December 31, 2014

	General Fund			Employee Benefits		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
REVENUE						
Property taxes	\$ 716,355	\$ 708,136	\$ (8,219)	\$ 180,696	\$ 175,635	\$ (5,061)
Charges for services	6,400	5,272	(1,128)	-	-	-
Intergovernmental	9,000	12,710	3,710	-	-	-
Interest	2,500	1,333	(1,167)	-	-	-
Total Revenue	<u>\$ 734,255</u>	<u>\$ 727,451</u>	<u>\$ (6,804)</u>	<u>\$ 180,696</u>	<u>\$ 175,635</u>	<u>\$ (5,061)</u>
EXPENDITURES						
Personnel Services	\$ 475,000	\$ 459,245	\$ 15,755	\$ 175,000	\$ 163,175	\$ 11,825
Contractual services	209,800	151,399	58,401	-	-	-
Grants issued to others	178,400	144,914	33,486	-	-	-
Capital Outlay	-	20,041	(20,041)	-	-	-
Total Expenditures	<u>\$ 863,200</u>	<u>\$ 775,599</u>	<u>\$ 87,601</u>	<u>\$ 175,000</u>	<u>\$ 163,175</u>	<u>\$ 11,825</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (128,945)	\$ (48,148)	<u>\$ 80,797</u>	\$ 5,696	\$ 12,460	<u>\$ 6,764</u>
FUND BALANCE - BEGINNING OF YEAR	128,945	113,583		-	14,512	
FUND BALANCE - END OF YEAR	<u>\$ -</u>	\$ 65,435		<u>\$ 5,696</u>	\$ 26,972	
ADJUSTMENTS TO GAAP - ENCUMBRANCES		15,847			-	
FUND BALANCE - GAAP BASIS		<u>\$ 81,282</u>			<u>\$ 26,972</u>	

The accompanying notes are an integral part of these financial statements.
 See Independent Auditor's Report.

Financial Statements

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The North Central Kansas Libraries System (the Libraries System) is a municipal entity established by the State of Kansas and governed by an appointed board. The Libraries System is primarily funded through tax levies, grants, and fees. Revenue is used to assist participating libraries in staffing and providing programs and services. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity.

The financial reporting entity of the Libraries System is comprised of itself as the primary government and any component units. Component units of the governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. Based on the application of the criteria above, there are no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Libraries System's basic financial statements include both government-wide (reporting the Libraries System as a whole) and fund financial statements (reporting the Libraries System's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. For the most part, the effect of interfund activity has been removed from the statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term liabilities and obligations. The Libraries System's net assets are reported in three parts—invested in capital assets; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues and are reported instead as general revenue.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014

Note 1: Summary of Significant Accounting Policies (Continued)
Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)
Fund Financial Statements

The Libraries System reports the following major governmental funds:

The General Fund is the Libraries System's primary operating fund. It accounts for all financial resources of the Libraries System, except those required to be accounted for in another fund.

The Employee Benefits Fund is a special revenue fund used to account for all employee benefits of the Libraries System.

Capital Improvement Fund is a special revenue fund used to account for all capital improvement expenditures to improve the Libraries System.

The State Aid Fund is a special revenue fund used to account for state support and items to support operation of the Libraries System.

The other aggregate non-major funds of the Libraries System account for various grants and other resources.

Budgetary Information

Kansas statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Prior to July 1, the Librarian submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to August 25, the budget is legally enacted.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles except that encumbrances are shown as expenditures. Budgetary comparisons for the General and Special Revenue Funds are presented as required by the State of Kansas; that is, including encumbrances as expenditures.

Cash and Cash Equivalents

The Libraries System has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments of three months or less when acquired.

Capital Assets

Capital assets are defined by the Libraries System as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5 -10 years
Vehicles	5 years

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the Libraries System's policy to permit employees to accumulate earned, but unused sick and vacation benefits. There is no liability for unpaid accumulated sick leave since the Libraries System does not have a policy to pay any amounts when employees separate from service with the Libraries System. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employee terminations as of year-end.

Taxes Receivable

Taxes receivable consist of amounts levied for 2015 as part of the 2015 budget. As the amounts cannot be used until the year for which they are levied, the receivable is offset by a corresponding deferred revenue. This deferred revenue will be recognized in 2015 when the taxes are received.

Fund Balances - Governmental Funds

The Libraries System elected to implement GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in calendar year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Restricted - includes amounts restricted by external sources (creditors, grantors, contributors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Assigned - includes amounts that the Libraries System intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. According to the Libraries System's policy, amounts may be assigned by the Director under the authorization of the Libraries System's board of directors.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Libraries System considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Libraries System considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Libraries System's board of directors has provided otherwise in its commitment or assignment actions.

Net Position

Net position restricted by grantors are restricted for use in accordance with grant agreements for specified purposes. The Libraries System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 2: Deposits and Investments

K.S.A 9-1401 establishes the depositories which may be used by the Libraries System. The statute requires banks eligible to hold the Libraries System's funds have a main or branch bank in the county in which the Libraries System is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Libraries System has no other policies that would further limit interest rate risk.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014

Note 2: Deposits and Investments (Continued)

K.S.A. 12-1675 limits the Libraries System's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Libraries System has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Libraries System may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Libraries System's deposits may not be returned to it. State statutes require the Libraries System's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2014, the Libraries System's carrying amount of deposits was \$267,424 and the bank balance was \$350,298. The bank balance was held by one bank resulting in a concentration of credit risk. To mitigate this risk, the Libraries System maintains a repurchase agreement by which excess idle funds are swept out of the account at the end of the bank business day and invested overnight in low-risk governmental securities.

Note 3: Capital Assets

Capital asset activity for the year ended December 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Furniture and equipment	\$ 20,400	\$ 8,500	\$ -	\$ 28,900
Vehicles	69,779	-	-	69,779
Total	<u>\$ 90,179</u>	<u>\$ 8,500</u>	<u>\$ -</u>	<u>\$ 98,679</u>
Less: Accumulated depreciation				
Furniture and equipment	\$ 9,119	\$ 4,340	\$ -	\$ 13,459
Vehicles	34,550	10,656	-	45,206
Total	<u>\$ 43,669</u>	<u>\$ 14,996</u>	<u>\$ -</u>	<u>\$ 58,665</u>
Governmental Activities Capital Assets - Net	<u>\$ 46,510</u>	<u>\$ (6,496)</u>	<u>\$ -</u>	<u>\$ 40,014</u>

Note 4: Defined Benefit Pension Plan

Plan Description. The Libraries System participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provide retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603), or by calling 1-888-275-5737.

NORTH CENTRAL KANSAS LIBRARIES SYSTEM
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2014

Note 4: Defined Benefit Pension Plan (Continued)

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rate. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Service Code. Kansas law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

Note 5: Long-Term Obligation Activity

Changes in long-term obligations for the year ended December 31, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Compensated absences	\$ 20,121	\$ 35,599	\$ 28,661	\$ 27,059

Compensated absences are paid from the General Fund.

Note 6: Prior Period Adjustment

During 2014, the following errors were noted:

- Certain service agreements had been fully charged to the 2013 budgets for the State Aid and Other Governmental funds but which were more properly allocated between 2013 and 2014 based on the service period of the agreements, which overlapped the fiscal year end. The effects of this transaction was to decrease the 2013 level of expense in the State Aid and Other Governmental funds by \$5,000 and \$21,113, respectively, and to increase the 2014 level of expense for each fund by the same amounts.
- Certain property and equipment items were determined to have been disposed prior to 2014. Additionally, there was a vehicle that was purchased in 2013 but which had not been capitalized. The effect of these errors was to increase the 2013 government-wide ending net position by \$14,575.

Note 7: Commitments and Contingencies - Encumbrances

The Libraries System uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities, but rather as restricted or assigned fund balance. At December 31, 2014, the Libraries System's recorded encumbrances in governmental funds were as follows:

General	\$ 15,847
State Aid	4,624
Other Governmental Funds	634
	<u>\$ 21,105</u>

Note 8: Subsequent Events

Management has evaluated subsequent events through May 27, 2015 which is the date the financial statements were available for issuance.